Remarks for Ellen Terpstra
2005 United Produce Expo and Conference
Rising Powers: China, India, and Brazil – Panel Discussion
Chicago, Illinois
April 30, 2005

Good morning. Thank you, James, for inviting me to lead off today's panel discussion on the rising powers, China, India, and Brazil.

I'd like to begin by providing some perspective on the changing global environment for agricultural trade and its impact on the horticultural products sector.

The world is operating in an agricultural trading environment shaped by globalization. It is characterized by shifting global food consumption patterns, increased market competition, globalization of the food industry, and the application of new technologies from computers and the Internet to biotechnology. Taken together, these factors are radically altering the farm and food system, as we know it.

In the next 20 years, the world will gain another 1.4 billion people. Representing a 25-percent increase in global population, most of these people will live in the expanding urban centers of the developing countries and will add greatly to the world's demand for food and fiber. Prospects are good that economic growth will continue in the developing countries like China, India, and Brazil, the focus our discussion today.

These developing markets will be major players in international trade over the next decade. Our analysis indicates that these three countries are among the top 20 most promising export markets for American food and agricultural exporters over the next decade. I'd like to focus on each market and talk about their growth potential. Lets start with China.

China

China is the world's second largest economy and a vast and growing market for U.S. agricultural products. Of the many trade successes in recent years, U.S. agricultural trade with China stands out as the most impressive development. Today, China is our number one market for soybeans, cotton, and hide and skins and our sixth-largest market for wheat.

We expect China's overall agricultural consumption as well as its imports will expand sharply. In fact, the economic consultancy, Global Insight, projects that China's retail food consumption could expand by $25 billion a year through 2020, which would make it the world's fastest growing food market. While this figure also includes Hong Kong's consumption, almost all the growth is being generated by demand in Mainland

China. With Hong Kong incomes at developed country levels and few real trade barriers, overall food demand is mature and very competitive.

While there are niche opportunities in Hong Kong's consumer food market, its major role is expected to be as a gateway (or conduit) for food demand in China's southern provinces. Opportunities abound for a broad range of both bulk and high value products, and appear most promising for citrus, juices, nuts, vegetables, potato products, wheat, corn, soybeans and products, hides and skins, poultry, pork, genetics, fish and seafood, wine, dairy, processed grocery products and forest products.

China is now the world's fourth largest agricultural importer, with 2004 imports of $26 billion. Furthermore, the evidence for China's market potential for U.S. agriculture is clear. Since China's entry into the WTO (World Trade Organization) in 2001, U.S. agricultural exports to that market have tripled, surging from about $1.8 billion in fiscal 2002 to $6.1 billion in fiscal 2004. Since its WTO accession, its average agricultural tariff has gone from 31 percent to 14 percent.

Rising incomes of China's 350 million households, of which, about 50 million are considered middle class, has fueled strong demand for U.S. farm products. We anticipate that by 2020, China will have 500 million households, of which 45 percent, or 220 million consumers will have incomes sufficient to by most food products exported by the United States – up from just 14 percent in 2000.

China is now our fifth largest agricultural export market after Canada, Mexico, Japan, and the European Union. We expect to see bulk commodities continue to dominate the U.S. export picture to China for the foreseeable future. However, while still small, in relative terms, the high-value market is expanding rapidly. The U.S. consumer-oriented products export number was $650 million in FY 2004. That's up about 80 percent from 2002.

China's entry into the WTO was a notable event, although it was preceded by a series of tariff cuts and other liberalizations during the period leading to its formal accession. China's government has reduced its control over agricultural production and trade, and given up its monopoly on foreign trade of most commodities.

China's increasingly market-driven economy and a more open foreign trade environment should contribute to continued strong demand for agricultural imports for the foreseeable future.

For your sector, we have seen tremendous growth in our horticultural product exports to China, which underscores the significant opportunities that exist.

Total U.S. exports of horticultural products to China approached $354 million in CY 2004, up 210 percent from 2000. If we include exports to Hong Kong, a major transshipment point, these exports reached $713 million in 2004.

But while China's trade environment is much more open than in previous years, China's trading partners still encounter many barriers to imports. Many of the market access barriers to U.S. products are SPS-related. One way USDA works on this is through a SPS training program for Chinese officials to improve their understanding of regulatory practices and WTO rules. We did this last fall and will offer another program this coming fall.

Looking ahead, we will be having a series of high-level policy dialogues with China this spring and summer, aimed at resolving a number of our top priority trade issues and further engage our Chinese counterparts.

For example, the cabinet-level U.S.-China Joint Commission on Commerce and Trade (JCCT), which Secretary Johanns will co-chair with the Commerce Secretary and the U.S. Trade Representative and its sub-group, the Ag Trade Working Group (JCCT-AWG), co-chaired by USDA Under Secretary Penn and USTR Ambassador Johnson, will provide an important vehicle for bringing various trade issues to a favorable conclusion. At the Cabinet-level meeting, we anticipate the signing of a memorandum of understanding with the Chinese ministry in charge of animal and plant health inspection services, to further develop our relationship.

We look forward to continuing to work with your industry in addressing existing access problems, as well as new constraints that may emerge in the future.

India

With more than a billion people and a $3 trillion-and-growing economy, **India** and its huge, young, and innovative population has the potential to become a much more dynamic and powerful economy.

In May 2004, India elected a new government. Members of the new government, including Prime Minister Dr. Manmohan Singh, were responsible for India's economic reforms begun in the early 1990s. Dr. Singh is widely respected as a champion of market-based reforms, however, he is under immense pressure to make sure that future reforms benefit the hundreds of million of rural Indians, as it was their economic discontent and votes that determined the election outcome.

The overall Indo-U.S. relationship is better than it has ever been, but the economic and commercial partnership is still under performing. We are working with the new government to encourage India to assume its rightful place as an open and constructive member of the global trade community.

Our analysis indicates that India could be a major wild card as an agricultural growth market, but only if the country's tariff levels are reduced – and not replaced with new non-tariff barriers. India, the largest democracy in the world, is already the world's fourth largest consumer of food behind the United States, Japan, and China and its consumption has grown rapidly in recent years. Real retail food expenditures in 2004 are estimated at $180 billion.

Furthermore, by 2020, India's food consumption is expected to double, making it the world's second fastest growing retail food market. These gains will be dictated by a growing economy and rapid expansion of India's middle class.

However, despite its size, its agricultural imports totaled less than $4 billion, which is only a fraction of China's. As incomes increase, demand for U.S. agricultural products could grow to multiply the modest $243 million we currently export to India.

Near and intermediate growth prospects appear brightest for almonds, fresh and dried fruit, wheat, cotton, soybeans and soybean oil, cheese, orange juice and grocery products.

India's economic reforms in the last 14 years have led to some openings in its trade and investment regime. For example, India has steadily lowered its applied tariffs on industrial goods, but India's agricultural tariffs average above 40 percent - fourth highest among 105 developing countries. Non-tariff barriers (NTB) continue to inhibit U.S. exports.

We continue to impress upon India the need to notify SPS measures and base them on science, including those affecting apples, pears, citrus fruits, dairy products, pulses, poultry, pet food, and forest products. The United States will continue to seek a long-term solution regarding almonds and other outstanding SPS issues.

Turning to the trade negotiations and India's role…India is an influential member of the G-20 group of developing countries and is one of the most protectionist members of that group. India sees itself as a world leader and sometimes likes to assert itself in conflict with U.S. trade policy positions, particularly if it feels it is being publicly pressured. We have to find the right balance of messages to encourage India to continue its slow movement toward liberalization and to support the WTO negotiations. Our interaction with India will be important in our prospects for success in the Doha Round.

In spite of being one of the most protectionist countries, India has expressed a willingness to consider modest reductions in its agricultural tariffs. India's global imports have grown faster than its exports, a sign that India is becoming more comfortable in the global economy.

The United States will continue to encourage India to reduce barriers to trade. Its participation in the G-20 will also pressure it in this direction.

Brazil

Of all the countries in South America, **Brazil's** prospects as a growth market for U.S. food and agricultural products are potentially the most promising. This may come as a surprise, given Brazil's well-deserved reputation as a world-class export competitor.

The facts are note-worthy. Brazil is the world's largest producer of coffee, sugar, frozen concentrated orange juice, tropical fruits, and vegetables. It is also ranks second in world production of soybeans and beef, third in corn and poultry, fourth in tobacco, and fifth in cotton, cocoa, and wood products. And Brazil has the world's largest cattle inventory at 170 million head, 50 percent larger than the United States.

Brazil is the largest Latin American country in terms of its economy, with 185 million consumers, 52 million households, of which, 13 million are considered middle class. These characteristics have a major impact on Brazil's food consumption. In 2004, Brazil's real retail food expenditures totaled $110 billion – the highest in Latin America.

Furthermore, food expenditures are positioned to grow significantly, due to real income growth averaging 4.1 percent a year over the next decade, a propensity to spend a significant portion of income growth on food, and a 80 percent gain in the size of Brazil's middle class by 2020 from its 2004 level. This bodes well for high valued food products.

U.S. exports to Brazil in FY 2004 totaled $325 million. U.S. export opportunities are varied but look best for wheat, numerous high value products such as pet food and snack foods, fresh deciduous fruit, grocery products, and livestock genetics.

With regard to Brazil as a market, frankly, we continue to be disappointed with respect to our horticultural exports, particularly in the area of fresh produce. There are a number of factors accounting for this performance. One is Brazil's preferential trade agreement with its MERCOSUR partners, Argentina, Chile, Paraguay and Uruguay, which give them an export advantage. Another factor is Brazil's expansion as an agricultural producer.

However, we believe the potential is there for increased trade, and we look forward to working closely with you on capitalizing on these opportunities.

President Lula's vision of Brazil's role in the world and Brazil's emergence as a major world supplier of food and agricultural products have influenced its role in international fora. We are already seeing some very positive signs on the trade policy front. Last summer, members of the WTO concluded the important agriculture framework for negotiations. We appreciated the constructive role Brazil played in advancing the negotiations to achieve this consensual framework. Brazil was much more constructive than in Cancun, three-quarters of a year before. As a member of the so-called Five Interested Parties (FIPS), Brazil represented the interests of the G-20 WTO members. Brazil has helped forcefully carry the message to the European Union and others of the need for aggressive agricultural reform.

In terms of our bilateral relationship, we have a relatively new policy mechanism in place with Brazil, called the Consultative Committee on Agriculture – or CCA – which provides a forum for addressing outstanding trade concerns and market access constraints such as ongoing concerns with U.S. seed potatoes and Pacific Northwest fruit, which are both slated for discussion at the next CCA.

The next meeting of the CCA is planned for late May in Washington D.C. I would urge those of you facing access constraints in Brazil to bring your specific concerns to our attention as we prepare for these upcoming bilateral discussions.

Horticultural Trade

For the horticultural products sector, these three markets are creating new opportunities and challenges.

The opportunities seem obvious. The U.S. horticultural sector is strong, and in fact has been, on the whole, among the best performing export sectors. U.S. exports of horticultural products finished fiscal year 2004 at $13.2 billion, 11 percent ahead of 2003's pace. An important reason for the increase is the continued weakness in the value of the dollar in relation to the euro, the yen, and the currencies of other key trading partners.

USDA is forecasting that FY 2005 exports will be even higher at $14.5 billion, up another 9 percent. This reflects generally higher prices due to increased foreign demand and the weaker dollar. Most of the annual gain is due to the increased value of exports to Canada, Mexico and the EU. Higher prices for fresh vegetables like tomatoes and lettuce are contributing to increased value.

But the challenges are also clear. U.S. horticultural imports have risen even faster than exports, reaching $24 billion in 2004 with a net trade deficit of $11 billion.

Let me disaggregate some of these numbers. The United States is the world's top exporter of fresh fruits and vegetables, at $3.7 billion in 2004, but competition from the rising powers, China, India, and Brazil, is coming on strong. For example:

China's exports of fresh fruits and vegetables have increased steadily in recent years, reaching about $1.6 billion in 2004, up from $665 million in 1995.

India's exports of fresh fruits and vegetables have also increased, from $125 million in 1999 to $271 million in 2003. *(2004 not available)*

Brazil's exports of fresh fruits and vegetables also continue to grow, reaching $377 million in 2004 compared with $111 million in 1997.

If we look at which countries are buying all these products, we see that the EU-15 was the top importer of fresh fruits and vegetables, with reported imports of $9.2 billion, followed by the United States, with imports of $6.5 billion. Together, we accounted for over half of the world's $30 billion of fresh fruit and vegetable imports.

But other countries are buying more too:

China's imports of fresh fruits and vegetables have risen in recent years, reaching about $782 million in 2004, up from $131 million in 1995.

India's imports of fresh fruits and vegetables have expanded rapidly, from $6.8 million in 1999 to $24.2 million in 2003. *(2004 not available)*

Brazil's imports of fresh fruits and vegetables have decreased in recent years from a level of $415 million in 1998 to $160 million in 2004.

The **top suppliers of fresh fruit and vegetable imports** to the U.S. market in calendar year 2004 were: Mexico, $3.1 billion; Chile, $885 million; Canada, $775 million; Costa Rica $537 million; Guatemala, $361 million; Ecuador, $285 million; and the European Union – 25 $208 million.

While the international market for horticultural trade remains robust, there are barriers that constrict world trade and pose a serious threat to U.S. producers. We appreciate the partnership we have with many of you, utilizing an array of USDA programs to address market constraints, promote exports, and reduce trade barriers.

#